

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Xcel Energy's Compliance
Filing on Rate and Cost-Allocation
Consequences of Modifications to
Employee/Retiree Medical Benefits and of
Discontinuing Funding for the Tax Advantaged
External Fund (VEBA) for Retiree Medical
Cost and Addressing the Issue of Single Issue
Ratemaking

ISSUE DATE: September 13, 2004

DOCKET NO. E, G-002/CI-03-2002

ORDER ACCEPTING RESOLUTION,
DEFERRING ISSUES AND REQUIRING
FILING

PROCEDURAL HISTORY

On October 17, 2003, the Commission issued its ORDER APPROVING PETITION WITH MODIFICATION AND REQUIRING COMPLIANCE FILING.¹ Among other things, the Order directed Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) to make a compliance filing detailing the amounts collected in rates for future shared medical benefits related to employees actively working and having benefits switched from medical to pension, and for the retired employees. The Order also required Xcel to address the issue of single issue ratemaking as it related to this proceeding.

On December 1, 2003, Xcel made its compliance filing. Xcel provided the approximate cost of service for medical benefits in the Minnesota jurisdiction for the 1993 test year (split for active employees and for retired employees) but argued that, going forward, this amount does not become an "amount collected in rates" for medical benefits for a particular group of employees. Xcel's filing also addressed the issues of single issue ratemaking, and retroactive ratemaking.

¹ *In the Matter of Xcel's Petition for Approval to Discontinue Funding of Tax Advantaged External Fund (VEBA Fund) for Retiree Medical Costs and the Withdrawal of the Accumulated VEBA Fund Balance over a Five-Year Period*, Docket E,G-002/M-02-2188, ORDER APPROVING PETITION WITH MODIFICATION AND REQUIRING COMPLIANCE FILING, October 17, 2003. ORDER DENYING RECONSIDERATION, December 26, 2003.

On January 30, 2004, the Department of Commerce (DOC) filed comments. The DOC recommended that the amount collected in rates for active employees should be assigned to the supplemental plan benefit expense for active employees. The DOC also recommended that the Commission defer the shared medical benefit issue for retired employees to the next rate case and require Xcel to provide certain information related to shared medical benefits of retired employees in its next electric and gas rate cases.

On February 13, 2004, Xcel filed reply comments. Xcel requested that the Commission reject the DOC's recommendations and take no further action on this matter.

On February 17, 2004, Myer Shark filed comments. Mr. Shark requested that all funds withdrawn by Xcel from the VEBA fund be refunded to ratepayers.

On July 9, 2004, Xcel filed supplemental comments indicating that the Company and the DOC have agreed that additional information is required and that such information would be appropriately reviewed in a future rate case proceeding. Further, Xcel stated that it has agreed to provide testimony and exhibits in its next gas and electric general rate cases to support its requested recovery of test year employee benefit costs.

On August 26, 2004, the matter came before the Commission.

FINDINGS AND CONCLUSIONS

I. Background

In the Commission's Orders in Northern States Power Company d/b/a Xcel Energy (Xcel) 1992 electric and gas rate proceedings² the Commission approved FAS 106 costs³ for use in setting Xcel's rates for both its gas and electric utility and required Xcel to establish an external funding mechanism by its next general rate case for FAS 106 cost accruals in excess of retiree medical benefits paid in cash. In 1998, at the time of its next rate case, the Company began making payments to a Voluntary Employee Benefit Association (VEBA) trust.

² FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER in Dockets E002/GR-92-1185 and G002/GR-92-1186 (September 29, 1993 and September 1, 1993, respectively).

³ Statement of Financial Accounting Standards No. 106 (FAS 106) was issued by the Financial Accounting Standards Board (FASB) in December of 1990. For financial accounting purposes, this statement required that the costs associated with post-retirement benefits other than pensions be accrued each year as the employees are actively working, or providing service, to the Company. The Commission adopted FAS 106 for Minnesota utility record keeping and ratemaking purposes in its ORDER ADOPTING ACCOUNTING STANDARD AND ALLOWING DEFERRED ACCOUNTING in Dkt. U-999/CI-92-96 (September 29, 1993).

The Company made changes to its retiree medical and pension benefits for active non-bargaining employees in 1998 and for active bargaining employees in 1999. The Company discontinued retiree medical benefits prospectively for new retirees and instead provided them with a new supplemental pension benefit. This essentially left a closed group of retirees that would continue to receive medical benefits.

In its October 17, 2003 ORDER APPROVING PETITION WITH MODIFICATION AND REQUIRING COMPLIANCE FILING⁴ the Commission authorized Xcel to discontinue funding of the VEBA trust and allowed Xcel to withdraw the funds from the VEBA account over a 13-year period. This Order also required Xcel to make the compliance filing that is the subject of the present docket.

The Commission required this compliance filing because of concern that ratepayers paid substantial amounts towards the FAS 106 costs that were now going to be phased out. The Commission was also concerned that there may be a need for additional ratepayer contributions to the pension fund to meet the increased obligations transferred there. The Commission sought additional information to address these concerns.

Further, the Commission required this compliance filing to determine whether to hold a proceeding to determine how much of the amount collected in past and future rates should be deposited to pension and how much should go towards future shared medical benefit costs.

II. The Agreement Between Xcel and DOC

Xcel acknowledged that the DOC was seeking additional information on future recoveries of post-retirement medical and pension benefit costs before making a determination as to whether an adjustment was appropriate. Xcel and the DOC agreed that the correct forum for reviewing this information was a future rate case proceeding where information regarding the prudence of test-year costs for employee benefits can be presented for review in conjunction with all other costs.

Xcel agreed to provide direct testimony and exhibits in both its next gas and electric general rate cases. Such information would include:

- A detailed description of the Company's post-retirement medical and pension benefit plans that existed both at the time of the last rate case and in the filed case.
- The test-year level of the Company's pension costs, providing detail regarding the amounts included in rate case filings, including (a) required pension funding, and/or (b) the components of pension cost amounts calculated under FASB 87 calculations (including, for example, service cost, interest cost, expected return on assets, and actuarial gains and losses). Also including a comparison of these funding requirements and cost components to the levels reflected in the most recent rate case

⁴ See footnote 1, above.

and, to the extent possible, explaining any significant changes (including, for example, impacts of changes in benefit plan design, changes in investment market conditions, changes in actuarial assumptions and projections, changes in applicable laws and regulations, or other factors).

- A comparison of the total costs included in rate case filings for the Company's pension and post-retirement medical benefits under the plans existing at the time of the previous rate case and at the time of the current rate case filing, including an estimate of supplemental pension costs arising since the prior rate case.
- A discussion of the business rationale for changes in the Company's pension and post-retirement medical benefit plan designs from the time of the prior rate case to the test year period.
- Total costs incurred by the Company, on both a cash-benefit payment and accrued FAS 106 basis, for shared medical benefits for retired employees since the last rate case.
- Remaining estimated actuarial liability (i.e. accrued FAS 106 costs not yet paid in cash) for the Company's shared medical benefits for retired employees.
- Supporting work papers and assumptions for the Company's pension and post-retirement benefit plan costs, consistent with rate case documentation requirements.
- A list of the date(s) between the date of the Commission's Order in this matter and the next gas and electric rate cases, when the Company is aware that the pension fund in which the Company participates is not fully funded, based on either the Company's annual funding calculation or quarterly funding estimate.

Further, it was agreed that all parties would be able to seek, in a future rate case, additional information through discovery and to make a determination whether to advance any recommendations regarding appropriate test year cost recovery levels. It was also agreed that parties retain all rights to make legal and policy arguments surrounding any potential recommended adjustment.

The resolution included agreement that, to the extent that recovery of pension costs was not sought (in the next rate cases) the above filing requirements and agreements were not applicable.

At hearing, the Company and the DOC agreed that this agreement, including the filing requirements herein, would be applicable whether or not Xcel seeks to recover pension costs in its next gas and electric rate cases.

III. Position of Myer Shark

Mr. Shark requested that the Commission order a refund to ratepayers of \$19 million that Xcel has identified as the Minnesota jurisdiction share of the VEBA trust. He argued that since Xcel declared the Pension Trust fully funded, and revenue to keep it funded at this level is assured, there is no reason to hold the \$19 million to cover contingent expenses.

IV. Commission Action

Upon reviewing the compliance filings and the parties' comments, the Commission agrees that the resolution submitted by Xcel in its July 9, 2004 supplemental filing, as agreed to by Xcel and the DOC, is reasonable and the Commission will accept it. The resolution provides for the additional information that is necessary for parties to address the issues arising from the Company's changes to its pension and medical plans and also recommends that the appropriate forum to consider this matter is Xcel's next gas or electric rate case.

The Commission agrees that moving the issues of medical benefit costs for retirees and supplemental pension costs for active employees to Xcel's future rate case proceedings is appropriate. Such rate case proceedings will allow for adequate consideration and review of the concerns expressed by this Commission.

The pension cost issue and the medical benefit costs for retirees should be thoroughly addressed in the future rate filings. Therefore, the agreed upon resolution to produce testimony and exhibits will be applicable whether or not Xcel seeks to recover pension costs in its next gas and electric rate cases.

The Commission further recognizes that the information to be provided must be available to the parties in a timely manner to enable adequate review and analysis. To meet this goal, the Commission will accept Xcel's offer to supplement its next rate case filing not later than 60 days after Xcel makes the filing.

The question of whether or not the information that Xcel has agreed to provide will be necessary in future rate cases is undetermined at this time. The Commission will require that a recommendation on this matter be given to the Commission at the close of Xcel's first rate case where the issues of medical benefit costs for retirees and supplemental pension costs are decided.

ORDER

1. The resolution agreed to by Xcel and the DOC submitted in Xcel's July 9, 2004 supplemental comments, with the clarifications and conditions herein, is hereby adopted. This defers the issues of medical benefit costs for retirees and supplemental pension costs for active employees until Xcel's next gas and electric rate case proceedings.

2. The resolution adopted in Ordering paragraph 1 is applicable whether or not Xcel seeks to recover pension costs in its next gas and electric rate cases.
3. The Company shall include the information in its rate case filings as described in its July 9, 2004 supplemental filing and set forth in section II herein. Parties shall be allowed further discovery and shall retain the ability to make legal and policy arguments.
4. Xcel shall supplement its next rate case filing with the information set forth in ordering paragraph 3 not later than 60 days after the rate case filing in order to permit review of the supplemental pension benefit and the ongoing shared medical benefit costs for the closed retiree group.
5. The parties to Xcel's next gas or electric rate case shall make a recommendation to the Commission at the close of that rate case as to whether the information required to be provided herein is needed in future rate cases.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (voice), or 1-800-627-3529 (MN relay service).